



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
FORMER GRAVES COUNTY CLERK**

Calendar Year 1998

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Sarah Jane Schaaf, Secretary, Revenue Cabinet
Honorable Tony Smith, County Judge/Executive
Honorable Barry M. Kennemore, Graves County Clerk
Honorable Glen Bruce, Former Graves County Clerk
Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former County Clerk of Graves County, Kentucky, for the year ended December 31, 1998. This financial statement is the responsibility of the former County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the former County Clerk was required to prepare his financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former County Clerk for the year ended December 31, 1998, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
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Honorable Glen Bruce, Former Graves County Clerk
Members of the Graves County Fiscal Court

Our audit was made for the purpose of forming an opinion on the financial statement taken as a whole. The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly presented in all material respects in relation to the financial statement taken as a whole.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following areas of noncompliance:

- The Former County Clerk Should Have Issued Receipts To Comply With KRS 64.840
- The Former County Clerk Should Have Maintained Accounting Records To Comply With KRS 68.210
- The Former County Clerk Should Have Properly Recorded Account Receivables
- The Former County Clerk Should Have Deposited All Receipts Intact Daily To Comply With TAB 93-002
- The Former County Clerk Should Have Required Depository Institutions To Pledge Additional Securities Of \$205,495 As Collateral To Protect Deposits
- The Former County Clerk Should Have Submitted Expenses Of \$8,516 For Preparing His Final Settlement To The Fiscal Court For Approval To Comply With KRS 64.830
- The Former County Clerk Should Remit \$3,331 To The Fiscal Court For 1995 Excess Fees
- The Former County Clerk Did Not Maintain Time Records As Required by KRS 337.320

In accordance with Government Auditing Standards, we have also issued a report dated August 18, 1999, on our consideration of the former County Clerk's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 18, 1999

GRAVES COUNTY
GLEN BRUCE, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1998

Receipts

State Grant - Department for Libraries and Archives	\$	4,726
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State Fees For Services		14,670
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Fiscal Court		9,215
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	751,926
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Usage Tax		3,293,529
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Tangible Personal Property Tax		1,832,572
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Title Fees		86,450
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Licenses-

Fish and Game		6,702
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Marriage		11,278
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Occupational		1,350
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Deed Transfer Tax		59,879
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Delinquent Tax		136,855	6,180,541
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	\$	20,630
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Real Estate Mortgages		43,945
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Chattel Mortgages and Financing Statements		121,826
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Powers of Attorney		1,561
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All Other Recordings		36,016
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Charges for Other Services-

Candidate Filing Fees		4,990
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Copywork		10,123	239,091
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Other:

Postage	\$	17,920
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Restitution		1,938
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Miscellaneous		352	20,210
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Interest Earned		9,053
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Gross Receipts (Carried Forward)	\$	6,477,506
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GRAVES COUNTY
 GLEN BRUCE, FORMER COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 1998
 (Continued)

Gross Receipts (Brought Forward) \$ 6,477,506

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 633,051	
Usage Tax	3,189,389	
Tangible Personal Property Tax	719,750	

Licenses-

Fish and Game	6,572	
Delinquent Tax	27,853	
Legal Process Tax	39,028	
Candidate Filing Fees	2,820	\$ 4,618,463

Payments to Fiscal Court:

Tangible Personal Property Tax	\$ 159,325	
Delinquent Tax	20,811	
Deed Transfer Tax	33,714	
Occupational Licenses	793	214,643

Payments to Other Districts:

Tangible Personal Property Tax	\$ 877,743	
Delinquent Tax	47,763	925,506

Payments to Sheriff 6,085

Payments to County Attorney 23,063

Operating Disbursements:

Personnel Services-

Deputies Salaries	\$ 282,810	
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Employee Benefits-

Employer's Share of Social Security	24,031	
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Contracted Services-

Printing and Binding	4,726	
Preparing Clerk Settlement	8,516	
Auditing Services	8,000	
Legal Services	2,150	

GRAVES COUNTY
 GLEN BRUCE, FORMER COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 1998
 (Continued)

Disbursements (Continued)

Operating Disbursements: (Continued)

Materials and Supplies-			
Office Supplies	\$	403	
Other Charges-			
Conventions and Travel		1,925	
Dues		1,000	
Postage		9,165	
Election Expenses		989	
Bonds and Insurance		9,342	
Refunds		9,942	
Miscellaneous		191	
			\$ 363,190
Total Disbursements			<u>\$ 6,150,950</u>
Net Receipts			\$ 326,556
Less: Statutory Maximum			<u>48,726</u>
Excess Fees			\$ 277,830
Less: Expense Allowance			<u>3,600</u>
Excess Fees Due County for Calendar Year 1998			\$ 274,230
Payments to County Treasurer-			
March 15, 1999	\$	270,000	
March 31, 1999		4,230	
			<u>274,230</u>
Balance Due at Completion of Audit			<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statement.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 1998

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year. A schedule of excess of liabilities over assets is included in this report for 1998 as a supplemental schedule.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.65 percent.

GRAVES COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 1998
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The former County Clerk maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. The former County Clerk entered into a written agreement with the depository institution on October 20, 1998, and met requirements (a), (b), and (c) stated above. However, as of April 10, 1998, the uncollateralized amount on deposit was \$205,495. The pledged securities and FDIC insurance did not equal or exceed the amount on deposit.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 300,000
Uncollateralized and uninsured	<u>205,495</u>
Total	<u>\$ 505,495</u>

Note 4. Grant

The former County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in a prior year. Funds totaling \$4,726 were expended during calendar year 1998. The grant was closed at December 31, 1998.

Note 5. Land Condemnation Account

The former County Clerk maintained a certificate of deposit with First Kentucky Bank (formerly Republic Bank and Trust) titled Land Condemnation Account. Interest is paid by check to the County Clerk's office and is deposited into the operating account quarterly. The balance of this certificate of deposit was \$1,200 as of December 31, 1998.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 1998
(Continued)

Note 6. Pending Lawsuit

A lawsuit styled Graves County Fiscal Court vs. Glen Bruce, Graves County Clerk, Case 98-CI-331, is currently pending in Graves County Circuit Court. It concerns \$15,857 of expenditures disallowed in the 1993 and 1994 calendar year audits of the Graves County Clerk. The excess fees reported and due to the county in 1993 and 1994 totaled \$31,548. The County Attorney also asserts in his legal representation letter that there is a possibility of amounts due from the 1995, 1996, and 1997 calendar year audits being added to the current lawsuit.

Note 7. Settled Lawsuit – Calendar Year 1992

A partial agreement concerning Graves Circuit Civil Action 94-CI-0220 between Graves County Fiscal Court vs. Glen D. Bruce, County Clerk and Edward B. Hatchett, Jr., Auditor of Public Accounts, was signed by all three parties. The 1992 audit report disallowed certain expenses taken by Glen D. Bruce, totaling \$23,567, which were said to be improper or personal expenses.

The former County Clerk paid the Graves County Fiscal Court \$10,000 to settle \$16,867 of these disallowed expenses. The \$16,867 was spent for the purchase of health insurance for the County Clerk, annual dues on his personal credit card, and disallowed expenses for a dinner with employees and a movie.

The Graves County Fiscal Court was estopped from collecting the remaining \$6,700 due to a Circuit Court Opinion And Declaratory Judgment entered July 21, 1997.

GRAVES COUNTY
 GLEN BRUCE, FORMER COUNTY CLERK
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

December 31, 1998

Assets

Cash in Bank	\$ 453,261
Deposits in Transit	<u>23,069</u>
Total Assets	<u>\$ 476,330</u>

Liabilities

Paid Obligations-

Outstanding Checks	\$ 30,670
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State Treasurer-

Motor Vehicle Licenses	16,378
Usage Tax	5,371
Tangible Personal Property Tax	48,911
Fish and Game Licenses	435
Legal Process Tax	3,590
Delinquent Tax	2,871

Graves County-

Tangible Personal Property Tax	10,331
Delinquent Tax	1,361
Deed Transfer Tax	6,758
Occupational Licenses	6
Excess Fees - 1998	274,231

Other Districts-

Tangible Personal Property Tax	58,645
Delinquent Tax	2,933
Withholdings - City	1,703

Payments to County Attorney	1,695
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Payments to Sheriff	426
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Deputy Salary - Final Settlement	1,975
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County Clerk's Compensation - Final Settlement	6,541
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Office Supplies	79
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Refunds	<u>221</u>
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Total Paid Obligations (Carried Forward)	\$ 475,130
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GRAVES COUNTY
 GLEN BRUCE, FORMER COUNTY CLERK
 SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS
 December 31, 1998

Liabilities (Continued)

Total Paid Obligations (Brought Forward)	\$ 475,130
Unpaid Obligation:	
1995 Excess Fees	3,331
Reserve - Land Condemnation Account - (See Note 5)	<u>1,200</u>
Total Liabilities	<u>\$ 479,661</u>
Total Deficit as of December 31, 1998 *	<u><u>\$ (3,331)</u></u>

- * A lawsuit styled Graves County Fiscal Court vs. Glen Bruce, Graves County Clerk, Case 98-CI-331, and is currently pending in Graves County Circuit Court. It concerns \$15,857 of expenditures disallowed in the 1993 and 1994 calendar year audits of the Graves County Clerk. The excess fees reported in 1993 were \$9,828 and 1994 excess fees were \$21,720 for a total of \$31,548. These excess fees have not been included on the "Schedule of Excess of Liabilities Over Assets," since the case is currently pending in Graves County Circuit Court. The 1992 audit report and excess fees due the county have been settled as described in Note 7.

COMMENTS AND RECOMMENDATIONS

GRAVES COUNTY
GLEN BRUCE, FORMER COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

Calendar Year 1998

STATE LAWS AND REGULATIONS:

1) The Former County Clerk Should Have Issued Receipts To Comply With KRS 64.840

The former County Clerk did not issue receipts for all income as required by KRS 64.840. Receipts should be issued for all income for which the state does not provide a standard receipt form. It further requires that the receipts meet the specifications of the State Local Finance Officer. These specifications require the receipt to be (1) pre-numbered and (2) issued in duplicate with one copy given to the customer and one copy retained by the clerk.

Management's Response: Management did not provide a written response.

2) The Former County Clerk Should Have Maintained Accounting Records To Comply With KRS 68.210

The former County Clerk did not maintain accounting records in compliance with KRS 68.210. The former County Clerk did not; 1) issue pre-numbered receipts, 2) retain a copy of this receipt, 3) batch these receipts daily, 4) post the batched receipts to the daily cash checkout, 5) post the daily cash check out to the receipts ledger, and 6) deposit the amount recorded in the official bank account daily. We recommend the new County Clerk obtain an Accounting Manual from the Department for Local Government.

Management's Response: Management did not provide a written response.

3) The Former County Clerk Should Have Properly Recorded Account Receivables

During our audit we noted that the difference between the list of receipts prepared by the deputies and the money on hand is posted to an over and short column on the receipts ledger. This column appears to be composed mostly of unrecorded account receivables. As a result, categories listed on the receipts ledger do not agree with actual documents recorded. A receipt should be issued for accounts charged. The receipt amount should be posted to the proper category and to the "Account Receivable Charged" category. When the receivable is paid it should be posted to the "Account Receivable Collected" column. A file should be maintained for outstanding account receivables and a list of outstanding accounts receivables prepared at the end of the accounting period. The accounting records will then properly reflect receipts.

Management's Response: Management did not provide a written response.

4) The Former County Clerk Should Have Deposited All Receipts Intact Daily To Comply With TAB 93-002

During our audit we found that the former County Clerk deposited receipts approximately every three days. TAB 93-002 required receipts over \$200 be deposited daily. We recommend the clerk's office make deposits daily as required.

Management's Response: Management did not provide a written response.

GRAVES COUNTY
GLEN BRUCE, FORMER COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
Calendar Year 1998
(Continued)

5) The Former County Clerk Should Have Required Depository Institutions To Pledge Additional Securities Of \$205,495 As Collateral To Protect Deposits

The former County Clerk's deposits were not adequately secured by \$205,495 as of April 10, 1998. Under provisions of KRS 66.480(1)(d) and KRS 41.240(4), banks are required to provide pledges of securities for interest-bearing and noninterest-bearing deposits if either exceeds the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation. The former County Clerk should have required the depository institution to pledge sufficient securities as collateral to secure deposits at all times. In addition, the former County Clerk should have entered into a written agreement with the depository institution before October 20, 1998. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Management's Response: Management did not provide a written response.

6) The Former County Clerk Should Have Submitted Expenses Of \$8,516 For Preparing His Final Settlement To The Fiscal Court For Approval To Comply With KRS 64.830

During our audit we noted that the former County Clerk paid himself compensation of \$6,541 and a deputy salary of \$1,975, to close-out his office and make his final settlement. KRS 64.830(4) states that "the outgoing county official shall be allowed and paid by the fiscal court the reasonable expenses actually incurred in preparing the final settlement. Reasonable expenses actually incurred may include his office expenses and salary, and salaries of deputies and employees paid in accordance with the schedule of the previous year." These amounts were deducted from excess fees rather than being paid directly by the County. We found no indication of Fiscal Court approval of these expenses nor did we find that the Fiscal Court had approved this final settlement. We recommend that the former County Clerk obtain approval from the fiscal court for these expenditures or the fiscal court should instruct the County Attorney to file suit to collect \$8,516 from the former County Clerk.

Management's Response: Management did not provide a written response.

7) The Former County Clerk Should Remit \$3,331 To The Fiscal Court For 1995 Excess Fees

KRS 64.820 requires the Fiscal Court to collect amounts due per audit. Our 1995 audit report reflects \$3,331 due to Graves County, as 1995 excess fees. We recommend the Fiscal Court take the action necessary to collect the amount due per the 1995 audit report as required by KRS 64.820.

Management's Response: Management did not provide a written response.

GRAVES COUNTY
 GLEN BRUCE, FORMER COUNTY CLERK
 SCHEDULE OF COMMENTS AND RECOMMENDATIONS
 Calendar Year 1998
 (Continued)

8) The Former County Clerk Did Not Maintain Time Records as Required by KRS 337.320

KRS 337.320 requires that time records be maintained for each pay period for each employee for the hours worked each day and each week. The time record should be signed by the employee and the employee's supervisor. The time record should note overtime, sick leave, and vacation leave earned or used. We noted that a bonus was paid to each employee in December. No time records were produced by the former Clerk upon our request for these records. We recommend that the proper payroll records be maintained to document hours worked.

Management's Response: Management did not provide a written response.

INTERNAL CONTROL – REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

- 1) The Former County Clerk Did Not Have a Proper Segregation of Duties
- 2) The Former County Clerk Should Have Issued Receipts To Comply With KRS 64.840
- 3) The Former County Clerk Should Have Maintained Accounting Records To Comply with KRS 68.210
- 4) The Former County Clerk Should Have Deposited All Receipts Intact Daily To Comply With TAB 93-002

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control structure that, in our judgement, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We consider the reportable conditions described above to be material weaknesses.

Management's Response: Management did not provide a written response.

PRIOR YEAR COMMENTS AND RECOMMENDATIONS:

The prior year audit contained the following comments which have not been corrected and are included in the current year comments and recommendations:

- 1) Prenumbered Receipts Not Issued For All Business Transactions
- 2) Improper Recordkeeping
- 3) Accounts Receivable Ledger Not Properly Maintained

GRAVES COUNTY
GLEN BRUCE, FORMER COUNTY CLERK
SCHEDULE OF COMMENTS AND RECOMMENDATIONS
Calendar Year 1998
(Continued)

PRIOR YEAR COMMENTS AND RECOMMENDATIONS: (Continued)

- 4) Failure To Make Daily Deposits
- 5) Pledges Insufficient And No Written Agreement
- 6) Deficit Balance Of \$3,331 As of December 31, 1997
- 7) Failure To Document Overtime

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Tony Smith, County Judge/Executive
Honorable Barry M. Kennemore, Graves County Clerk
Honorable Glen Bruce, Former Graves County Clerk
Members of the Graves County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Graves County Clerk as of December 31, 1998, and have issued our report thereon dated August 18, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Graves County Clerk's financial statement as of December 31, 1998, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Former County Clerk Should Have Issued Receipts To Comply With KRS 64.840
- The Former County Clerk Should Have Maintained Accounting Records To Comply With KRS 68.210
- The Former County Clerk Should Have Deposited All Receipts Intact Daily To Comply With TAB 93-002

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Graves County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Honorable Tony Smith, County Judge/Executive
Honorable Barry M. Kennemore, Graves County Clerk
Honorable Glen Bruce, Former Graves County Clerk
Members of the Graves County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- Lack Of Segregation Of Duties
- The Former County Clerk Should Have Issued Receipts To Comply With KRS 64.840
- The Former County Clerk Should Have Maintained Accounting Records To Comply With KRS 68.210
- The Former County Clerk Should Have Deposited All Receipts Intact Daily To Comply With TAB 93-002

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider all of the reportable conditions described above to be material weaknesses.

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 18, 1999

